

Fiscal Position and Outlook

This chapter presents information on the financial statements for the 2003-04 Estimate, the 2004-05 Budget and three forward estimate years. It also provides a discussion of the movement between estimates and between years and possible risks to the Territory Budget.

The discussion on the cash targets and operating statement focuses on the general government sector as this is the sector supported by tax revenues and provides the core services of government.

The majority of Territory assets and liabilities are located in the general government sector because of the comparative stage of Territory development. However, in most states, a significant level of assets and liabilities are held within their public non financial corporations sector, making comparative analysis of either sector's balance sheet difficult.

Therefore, the discussion on the balance sheet focuses on the non financial public sector (includes both the general government and non financial public corporations sectors), as it provides a better basis for comparative analysis of the Territory's financial position with other states.

Fiscal Outlook

Since the 2003-04 Budget, the Government has been presented with a number of fiscal challenges that contributed to a revised fiscal strategy for 2004-05. These pressures resulted in increased service provision, particularly in police and community safety, health and education services, as well as in areas designed to stimulate economic growth such as tourism. Even though spending increased in these areas, the net operating balance in 2003-04 improved significantly from the Budget-time estimate because of growth in GST revenue. However, the 2004-05 outcome worsens as a result of minimal GST revenue growth.

The cash outcome for 2004-05 is consistent with previously published targets for 2004-05, although both operating receipts and payments are higher. However, it is expected that 2005-06 will return to a deficit and the achievement of a balanced cash budget outcome will be deferred for around five years.

General Government

Table 3.1 shows the movement in the cash outcome between the 2003-04 Budget and the 2004-05 Budget. Variations are categorised by parameter and policy effects.

Table 3.1: Summary of Cash Variations Since May 2003

	2003-04	2004-05
	\$M	\$M
Cash Surplus/Deficit - May 2003	- 24	0
<i>/ess</i> Parameter Variations		
CPI reduced from 2.5% to 2.1%		- 3
Additional 1% Productivity Dividend		- 7
Revised Tax Estimates	- 6	- 6
Revised GST Revenue	- 92	- 50
Net Specific Purpose Payments	- 9	- 19
Lower Interest Payments	- 5	0
Lower Superannuation Benefits Payments	- 4	- 6
Revised Treatment of Budget Balancing Assistance Grants received in 2002-03	17	
Total Parameter Variations	- 99	- 91
<i>/ess</i> Policy Variations ¹		
Economy and Business	9	20
Jobs and Training	6	4
Community Safety	12	27
Schools	6	13
Health	2	16
Lifestyle	6	10
Regional		1
Total Policy Variations	41	91
Cash Surplus/Deficit - May 2004	34	0

¹ See chapter 4 for a list of initiatives under these priority areas

In 2003-04, the general government cash target has improved from a forecast deficit of \$24 million to a surplus of \$34 million. Policy variations have added \$41 million to the Budget outcome. However, large revenue parameter variations (specifically increases in GST revenue) have exceeded policy variations causing a significant turnaround in the Territory's cash position.

In 2004-05, the Government has increased expenditure on its key priority areas by \$91 million through a number of policy initiatives. These increases have been offset by a \$91 million improvement due to parameter variations, significantly higher GST revenue (\$50 million) than projected in the original 2003-04 Budget. Prior to the Commonwealth Budget in May 2004, GST revenue was \$22 million higher, resulting in a projected deficit of \$28 million. The increase in GST revenue means the target of a balanced cash budget by 2004-05 is expected to be achieved. However, the combination of the step up of policy decisions made during 2003-04 and low GST revenue growth will result in deficits in the forward estimate years, plateauing in 2005-06 before trending to balance.

Operating Statement

Table 3.2: General Government Sector Operating Statement Aggregates and Measures

	2002-03 Actual	2003-04 Budget	2003-04 Estimate	2004-05 Budget	2005-06 Forward Estimates	2006-07 Forward Estimates	2007-08 Forward Estimates
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Revenue	2 361	2 407	2 558	2 557	2 625	2 697	2 767
Expenses	2 362	2 405	2 509	2 569	2 655	2 715	2 772
Net Operating Balance	- 1	2	49	- 12	- 31	- 18	- 5
Net Lending (+) /Borrowing (-)	- 73	- 26	12	- 29	- 31	- 19	- 9

For 2003-04, the net operating balance is expected to be a surplus of \$49 million, an improvement of \$47 million on the original Budget. In 2004-05, a deficit of \$12 million is projected, a turnaround from 2003-04 of \$61 million. The net operating balance represents the effect of no revenue growth in 2004-05, primarily due to low growth in GST revenue, combined with a \$59 million increase in expenses associated with the Government's policy initiatives. Over the forward estimates period, net operating balance deficits are expected to improve in line with the Territory's fiscal strategy target of achieving an operating balance by 2012-13.

Net lending / borrowing follows a similar trend to the net operating balance, with a projected surplus of \$12 million in 2003-04 and a deficit of \$29 million in 2004-05. This represents the effect of the net operating balance (-\$12 million) plus net acquisitions of non financial assets (\$17 million).

Operating Revenue

Of all the states, the Northern Territory is the most dependent on revenue assistance from the Commonwealth. In 2003-04 and 2004-05, GST revenue comprises 66 per cent of total Territory revenue. Other Commonwealth grants and subsidies comprise 15 per cent of total revenue and include grants such as national competition payments, uranium royalties and natural disaster relief arrangement payments.

This means that GST revenue and other grants and subsidies account for 81 per cent of the Territory's total revenue in both 2003-04 and 2004-05, compared to 50 per cent of total revenue for other states and territories.

Territory own-source revenue accounts for the remaining 19 per cent, with taxation comprising 10 per cent of total revenue. Territory taxation is largely comprised of payroll tax (37 per cent) and taxes on property (27 per cent). The remaining 9 per cent of total Territory revenue comes from sales of goods and services, interest income, dividends from the public financial and non financial corporations sectors, tax equivalent payments and royalty income.

Table 3.3: General Government Sector Operating Revenues

	2002-03 Actual	2003-04 Budget	2003-04 Estimate	2004-05 Budget	2005-06 Forward Estimates	2006-07 Forward Estimates	2007-08 Forward Estimates
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Taxation Revenue	246	254	262	264	267	273	279
Current Grants and Subsidies	1 805	1 878	1 998	2 003	2 074	2 137	2 212
Capital Grants	84	75	69	68	68	69	69
Sales of Goods and Services	81	85	95	92	92	92	92
Interest Income	18	15	20	17	17	17	17
Other	127	101	114	114	107	109	98
Total Revenue	2 361	2 407	2 558	2 557	2 625	2 697	2 767
Year on Year Percentage Increase (%)			8.3	0.0	2.6	2.8	2.6

Total operating revenue for the general government sector is expected to decrease by \$1 million to \$2 557 million in 2004-05.

Over the forward estimates period, on average, total Territory revenue is expected to increase by approximately 2.7 per cent per annum to \$2 767 million in 2007-08. Table 3.3 provides details of actual Territory revenue for 2002-03 and estimates for 2003-04 and forward years.

In 2003-04, estimates of total Territory revenue have increased significantly. At the time of the Territory's Mid Year Report, total Territory revenue had increased by \$48 million to \$2 455 million. This increase was mainly due to higher GST revenue estimates (\$41M), following revised Commonwealth estimates for the national GST revenue pool available for distribution.

Following the Mid Year Report, total Territory revenue for 2003-04 has been revised upwards to \$2 558 million. This reflects a number of changes to revenue estimates including higher GST revenue (\$51 million), other Commonwealth grants (\$19 million), property taxes (\$9 million), sales of goods and services (\$8 million) and tax equivalents (\$14 million) from Territory public financial and non financial corporations.

Total Taxation

During 2003-04, general government taxation revenue estimates have increased by \$8 million to \$262 million. This has been due to increased activity in the residential and commercial property markets, offset by a reduction in payroll collections.

In the 2004-05 Budget, taxation is projected to increase by \$2 million to \$264 million. This increase is minimal due to the increase in the payroll tax threshold and an expected reduction in conveyancing duty.

Changes to taxation revenue estimates for 2004-05 are based on:

- stronger employment growth, offset by reductions in the payroll tax threshold resulting in a \$5 million increase in payroll tax estimates; and
- the effect of slower property market activity in 2004-05 resulting in a reduction in property tax revenue (\$3 million).

In the forward estimates period, forecast collections are expected to grow by 1.2 per cent in 2005-06, 2.1 per cent in 2006-07, and 2.0 per cent in 2007-08 and incorporate the effect of:

- changes in economic growth forecasts;
- the increase in the payroll tax threshold from \$800 000 to \$1 million from July 2005;
- the cessation of the community gaming allowance tax offset for MGM Darwin Casino from 1 July 2005; and
- the abolition of debits tax on 1 July 2005.

Grants and Subsidies

Estimates of total grants and subsidies are expected to increase by 0.2 per cent (or \$4 million) to \$2 071 million in 2004-05 from 2003-04. This comprises an \$8 million increase in GST revenue offset by a \$4 million decrease in other grants and subsidies.

GST Revenue

The GST revenue estimates used in the 2004-05 Budget reflect the Territory's estimates of population growth, the Territory's (reduced) 2004 relativity and the Commonwealth's latest estimates of GST revenue and growth (based on the 11 May 2004 Commonwealth Budget estimates).

While all jurisdictions believe that this growth is likely to be too high, only the Commonwealth has access to GST collections data, and therefore all jurisdictions have agreed to use these estimates.

There is a risk to all jurisdictions in using the high Commonwealth estimates, however, the risk for the Territory is much greater due to the greater reliance on GST revenue.

In 2004-05, the risk is considered minor, however, the downside risk in the forward estimates period increases from \$36 million in 2005-06 to \$68 million in 2007-08. This is dealt with more fully in the Statement of Risks later in the chapter.

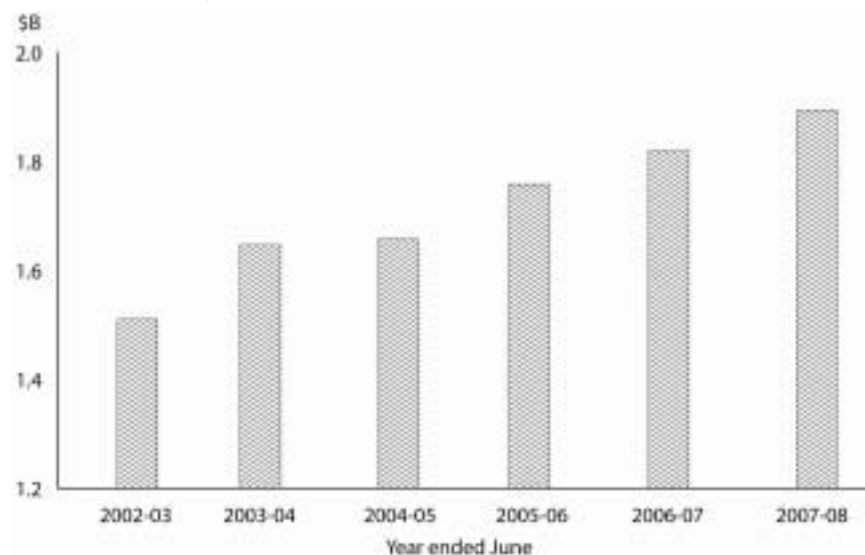
The Territory's GST revenue is expected to increase by 0.5 per cent to \$1 693 million in 2004-05. Low GST revenue growth for the Territory is the result of relatively low population growth and the lower 2004 relativity resulting in a reduced share of the national GST revenue pool.

A trend towards lower population growth has been evident in the Territory for a number of years. In addition, the Commonwealth Grants Commission recently completed its five yearly review of state and territory relativities which resulted in a reduction in the Territory's relative share of GST revenue.

While increases in the size of the national GST revenue pool have offset negatives in the other two parameters to some extent, the combined effect of lower population growth and relative share have resulted in the Territory receiving a minimal increase in GST revenue in 2004-05, from an increased national GST revenue pool. This has resulted in a lower level of growth in GST revenue in 2004-05 and the forward estimates period, compared to the rate of growth in GST revenue experienced since the introduction of national tax reform in 2000-01.

Chart 3.1 shows actual and projected Territory GST revenue from 2002-03 to 2007-08.

Chart 3.1: Territory GST Revenue



Based on Commonwealth estimates, GST revenue is expected to increase to \$1 750 million, \$1 819 million, and \$1 889 million in 2005-06, 2006-07 and 2007-08 respectively. This represents the effect of a stable but declining relative GST revenue share, increased population growth, and average growth of 5.7 per cent in the national GST revenue pool. The downside risk is discussed later in this chapter. For more information on GST revenue, see Chapter 5 of this Budget Paper.

Other Grants and Subsidies

Other current grants and subsidies include untied grants (over which the Territory has discretion as to their use) and tied funding (which it does not).

The Territory is expected to receive \$378 million in other grants and subsidies in 2004-05 which is a 1.2 per cent decline on 2003-04. This represents the effect of changing priorities in Commonwealth policy areas. In the forward estimates, other current grants and subsidies are expected to increase to \$391 million, \$387 million and \$392 million in 2005-06, 2006-07 and 2007-08 respectively. This reflects the effect of various parameters (population, inflation, wage costs, etc.) which are stipulated in some of the agreements.

Other Revenue

The remaining 9 per cent of total Territory general government revenue comprises sales of goods and services, interest, dividends from government businesses, tax equivalents, royalties and other revenue.

Other revenue has increased by \$28 million to \$229 million since the 2003-04 Budget. This represents the effect of increased goods and services revenue (\$9 million), interest income (\$5 million) and other revenue (\$14 million). Significant changes include:

- interest income has increased due to higher interest rates and cash balances; and
- tax equivalents from public financial and non financial corporations have been revised upwards since the Budget.

In 2004-05, other revenue is expected to decrease from 2003-04 by 2.6 per cent (or \$6 million) to \$223 million. This represents the effect of lower goods and services revenue (-\$3 million) and lower interest income (-\$3 million).

Operating Expenses

Operating expenses have increased since the 2003-04 Budget largely due to policy decisions taken through the year. Major initiatives in 2004-05 include:

- additional funding of \$2.5 million for tourism;
- additional schools funding of \$13 million in 2004-05 for the final stage of the employment of an additional 100 teachers, accelerated literacy programs, continuation of the previously Commonwealth-funded Aboriginal Islander Education Workers program, and improved information technology infrastructure for schools;
- increased funding for community safety programs of \$15.1 million in 2004-05 to increase front-line police numbers, strengthen fire services, enhance counter terrorism capability, reduce offender recidivism and provide additional funding to the justice system. This is in addition to increased funding of \$11.6 million in 2003-04 for additional resource requirements as recommended in the O'Sullivan Review of Police Resourcing and the Northern Territory Fire Service Assessment Report and additional funding for the Safe Pool Grant Scheme; and
- additional Health and Community Services funding of more than \$23 million in 2004-05, including \$2 million for Alice Springs Hospital intensive care and high dependency acute care services, \$2.5 million for Royal Darwin Hospital critical care services, \$2.6 million for mental health, \$2 million for disease control, \$1.4 million for child protection, \$1.2 million for disability services and \$3 million for renal dialysis in remote communities.

Table 3.4 shows general government sector operating expenses for 2002-03 and estimates for 2003-04 and forward years.

Table 3.4: General Government Operating Expenses

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Depreciation	125	133	138	141	144	147	150
Employee Expenses	937	960	979	1 000	1 031	1 066	1 100
Other Operating Expenses	600	625	611	661	713	723	726
Nominal Superannuation							
Interest Expense	82	84	87	89	91	91	92
Other Interest Expense	144	137	142	128	121	121	127
Current Transfers	414	415	483	495	499	509	519
Capital Transfers	60	52	70	55	56	57	59
Total Expenses	2 362	2 405	2 509	2 569	2 655	2 715	2 772
Year on Year Expenditure Growth (%)			6	2	3	2	2
Average growth 2002-03 to 2004-05 (%)				4			

General government sector operating expenses are expected to increase by 2.4 per cent in 2004-05 from 2003-04, however, 2003-04 includes significant one-off expenditure, particularly carry over from 2002-03.

Therefore, a more appropriate method of calculating expenditure growth for 2004-05 is to use average expenditure growth since 2002-03.

Employee Expenses

During 2003-04, employee expenses have increased by \$19 million. Major variations include:

- additional police resources (\$5 million);
- additional resources for health (\$18 million) with a large proportion of the increase due to the outcome of the nurses and doctors enterprise bargaining outcomes (\$8.3 million); and
- additional resources for the Department of Community Development, Sport and Cultural Affairs (\$5.2 million) including additional employees for a number of new initiatives.

In 2004-05, employee expenses are expected to increase by \$21 million since the 2003-04 Budget, an average increase of 3.4 per cent, when one-offs are removed, which is in line with wages growth and the stepping up of new initiatives approved during 2003-04. Other major variations include additional police resources (\$8.4 million).

Over the forward estimates period, employee expenses are expected to increase by 3.1 per cent, 3.4 per cent and 3.2 per cent in 2005-06, 2006-07 and 2007-08 respectively.

Other Operating Expenses

During 2003-04, estimates for other operating expenses have decreased by \$14 million. Major variations include:

- additional resources for health (\$8 million), including increased operational funding for hospitals;
- additional resources for Police, Fire and Emergency Services (\$5 million), largely as a result of the Police Resources Review implementation;
- additional resources for the Northern Territory Tourist Commission (\$7.5 million); and

- reclassification of the Indigenous Essential Services power and water fee to an operational grant (-\$35.7 million).

In 2004-05, other operating expenses will increase by \$49 million from 2003-04 as a result of new initiatives commencing in 2004-05 and increases in those approved during 2003-04.

Current Transfers

During 2003-04, current transfers are expected to increase by \$69 million largely due to the reclassification of the Indigenous Essential Services payment to PowerWater from other operating expenses to grants and an increase in specific purpose payments with associated expenditure commitments.

In 2004-05, current transfers will increase by \$12 million largely due to an increase in the community service obligation payment to PowerWater for the Tranche 4 electricity community service obligation.

Capital Transfers

Capital transfers estimates have increased by \$18 million since the 2003-04 Budget. Major variations include:

- \$4.4 million for renewable remote power generation funded by the Commonwealth;
- an additional \$6 million for various capital grants paid by the Department of Community Development, Sport and Cultural Affairs; and
- \$3.8 million to PowerWater to provide electricity to Dundee.

In 2004-05, estimates for capital transfers have decreased by \$7 million as a result of one-off grants being paid in 2003-04.

Balance Sheet

Table 3.5: General Government Sector Balance Sheet

	2002-03 Actual	2003-04 Budget	2003-04 Estimate	2004-05 Budget	2005-06 Forward Estimates	2006-07 Forward Estimates	2007-08 Forward Estimates
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Total Assets	5 694	5 688	5 657	5 650	5 675	5 703	5 758
Total Liabilities	3 784	3 637	3 720	3 732	3 783	3 822	3 868
Net Worth (Assets - Liabilities)	1 910	2 051	1 937	1 918	1 892	1 881	1 890
Net Debt	1 344	1 412	1 299	1 290	1 295	1 294	1 289
Year on Year Change in Net Debt (%)			- 45	- 9	6	- 1	- 5

The Government's actual and projected stock of assets and liabilities as at 30 June each financial year are recorded in the Territory's Balance Sheet. A comprehensive measure of the position of these assets and liabilities is net worth, which comprises total assets less total liabilities. Positive net worth indicates that the Territory Government has more assets at its disposal than liabilities it must satisfy in the future. While net worth is a useful measure of the Territory's financial position, it does not take account of the inability of governments to realise certain assets should they be called upon by creditors. This leads to the use of supplementary measures in the public sector to gauge financial position such as net debt.

Table 3.5 provides a summary of general government sector assets, liabilities and balance sheet measures. Net worth for the general government sector is expected to decline from \$1 937 million in 2003-04 to \$1 918 million in 2004-05, representing changes in the value of asset and liability stocks (\$19 million).

In 2004-05, general government net debt is expected to decrease by \$9 million to \$1 290 million reflecting the effect of the revaluation of net debt stocks.

As discussed previously, the non financial public sector provides a more comprehensive basis for balance sheet analysis as set out in Table 3.7 below.

Non Financial Public Sector

Operating Statement

Table 3.6: Non Financial Public Sector Operating Statement Aggregates and Measures

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Revenue	2 679	2 801	2 951	2 953	3 040	3 122	3 209
Expenses	2 653	2 756	2 879	2 958	3 059	3 128	3 195
Net Operating Balance	27	46	72	- 5	- 20	- 6	14
Net Acquisition of Non Financial Assets	72	13	70	64	8	13	18
Net Lending (+) / Borrowing (-)	- 46	32	2	- 69	- 28	- 19	- 4

As shown in Table 3.6, the non financial public sector net operating statement largely follows the trend for general government. However, net lending peaks in 2004-05 due to high levels of capital expenditure by public non financial corporations in that year. In the forward estimates period, public non financial corporations operating surpluses are expected to fund that sector's capital acquisition program.

However, continuing general government operating deficits will ensure the continuation of net lending / borrowing deficits for the non financial public sector.

Balance Sheet

Table 3.7: Non Financial Public Sector Balance Sheet

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Estimate	Budget	Forward Estimates		
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Financial Assets	962	785	896	885	917	946	958
Non Financial Assets	5 353	5 575	5 370	5 414	5 408	5 407	5 411
Total Assets	6 315	6 360	6 266	6 300	6 326	6 353	6 369
Total Liabilities	4 405	4 309	4 329	4 382	4 433	4 473	4 479
Net Worth (Assets - Liabilities)	1 910	2 051	1 937	1 918	1 892	1 881	1 890
Net Debt	1 723	1 825	1 681	1 717	1 724	1 722	1 713
Year on Year Change in Net Debt (%)			- 42	36	7	- 1	- 9

Table 3.7 provides a summary of assets, liabilities and balance sheet measures for the non financial public sector. Non financial public sector net worth is expected to decline from \$1 937 million in 2003-04 to \$1 918 million in 2004-05. This represents the effect of a number of events including:

- a non financial public sector cash deficit;
- ongoing efforts to revalue the Government's non financial assets to more realistic levels; and
- the effect of Government policy such as the abolition of the HIH levy which has reduced the level of Territory receivables.

Over the forward estimates period, principally due to the effect of ongoing cash deficits, net worth is expected to decline slightly to \$1 890 million in 2007-08.

Net Debt

Debt finance is an important source of funding for publicly provided infrastructure.

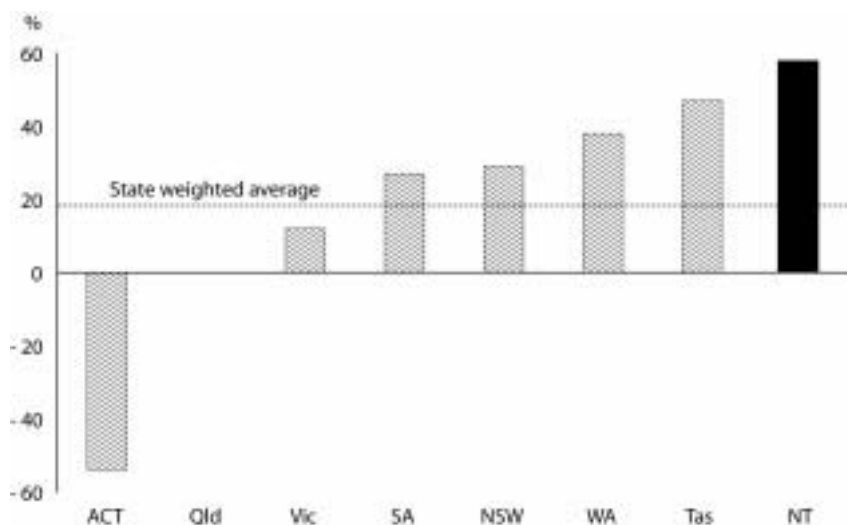
In 2004-05, net debt is expected to increase by 2.1 per cent to \$1 717 million as the result of a \$45 million cash deficit for the non-financial public sector, offset by net debt stock revaluations of \$9 million. As with the other key financial measures, net debt is expected to plateau in 2005-06 and then begin to improve over the forward estimates period.

In 2003-04, net debt is expected to improve by \$144 million from the time of the 2003-04 Budget to \$1 681 million. This is the result of the improved cash estimate for 2003-04 and final outcome for 2002-03.

The Territory's current level of debt is high compared to other states. The Territory is still a developing economy which has required, and will continue to require, debt financing to further develop the Territory's social and physical infrastructure. Other states, with more mature economies, have been able to reduce debt by privatising government businesses. In the Territory's case, this has not been possible, as Territory specific factors (eg market size) limit private sector involvement.

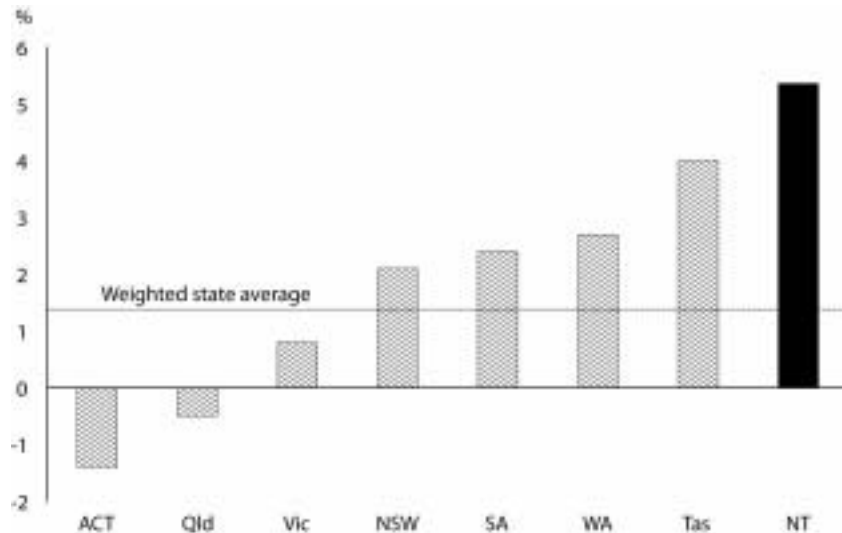
The proportion of net debt to total Territory revenue provides a meaningful measure of the Territory's debt position compared to other states. As shown in Chart 3.2, in 2003-04, the Territory's proportion of net debt to total revenue is expected to be 58 per cent compared to the states average of 19 per cent of total revenue. While this shows the Territory has a high level of debt compared to the states, the Territory has a similar level of debt to that of Tasmania (47 per cent).

Chart 3.2: Non Financial Public Sector Net Debt to Revenue 2003-04



Another measure of debt sustainability is the ratio of net interest payments to net revenue. This measure nets interest receipts from revenue and interest payments to provide a comparative measure of serviceability. As shown in Chart 3.3, in 2003-04, the Territory's ratio of net interest to net revenue is expected to be 5.4 per cent. Similar to net debt, this ratio is similar to that of Tasmania (4.0 per cent), but significantly higher than the State average of 1.4 per cent. While this indicates that the Territory has less budget flexibility than other states due to a higher level of interest payments, Territory interest payments are maintained at manageable levels.

Chart 3.3: Non Financial Public Sector Net Interest Payments to Net Revenue 2003-04



Statement of Risks

The *Fiscal Integrity and Transparency Act* requires that the Fiscal Outlook Report (Budget) must contain “a statement of risks, quantified as far as practical, that could materially affect the updated financial projections, including any contingent liabilities and any Government negotiations that have yet to be finalised.”

This statement outlines the potential effect of risks to the Budget due to changes in revenue and expense estimates and the likelihood of contingent liabilities becoming actual liabilities.

Revenue

GST Revenue

In the 2004-05 Budget, one of the largest risks to the estimates is GST revenue. GST revenue contributes 66 per cent to the Territory’s total revenue base. Therefore, movements in estimates have a significant effect on the Government’s funding capacity.

The estimation of GST revenue is difficult in any year due to the potential volatility of the components that contribute to the GST distribution calculation. These factors are:

- the Territory’s population;
- the relative need for budgetary assistance compared to other states; and
- the level of, and growth in, national GST revenue collections.

In developing the 2004-05 Budget and forward estimates, the estimates for population and relative share of the GST pool have been based on the latest Territory estimates. However, the level of GST revenue collections and the growth in those collections is based on Commonwealth estimates.

Growth in GST Revenue Collections

The Commonwealth does not provide the basis for its estimates to the states and territories and as only it has access to GST revenue collections data, its estimates are all that is available to jurisdictions. Therefore, while all jurisdictions are of the view that the Commonwealth’s current GST revenue estimates are likely to be too high, all jurisdictions have agreed to use those estimates as there is no authoritative alternative.

For the Northern Territory, the downside risk of using these high estimates is greater than for other jurisdictions due to the extent of the Territory's reliance on GST revenue. The potential risk to the estimates is minimal in 2004-05 (\$4 million), however, the risk increases significantly in 2005-06, 2006-07 and 2007-08 with the potential to worsen the outcome by up to \$36 million, \$53 million and \$68 million respectively.

While there is a possibility that GST revenue may increase rather than decrease in the forward estimates, this is considered less likely.

A more reliable estimate of GST revenue is unlikely to be available until the update provided at the Treasurers Conference in March 2005.

Population

In estimating GST revenue for the Budget and forward estimates, the Territory's population estimates have been used. While population is difficult to project, the estimates are more reliable, relative to the estimates of GST revenue collections. A variation in population of 0.25 per cent equates to around +/- \$5 million. While the Territory's population has been revised down in recent years, this does not preclude the possibility of higher than expected population growth as net interstate migration flows return to historical levels.

Relativity

The Commonwealth Grants Commission released its 5 yearly report on the review of relativities in February 2004. The relativity used for the forward estimates in the 2004-05 Budget already includes the likelihood of a reduction in the GST relativity from 2005-06. This accounts for the cyclical pattern of relativities and the slowing of property markets in southern states which are factors likely to reduce the Territory's relativity. There is some risk that the relativities used in the forward estimates will vary.

The outcome of the Commonwealth Grants Commission's updates are inherently uncertain. Based on the outcome of previous updates following the Commission's 1999 Review, the estimated risk from 2005-06 onwards is +/- \$20 million.

Specific Purpose Payments

Specific purpose payment agreements pose risks to state budgets in several ways. Importantly, the budgetary flexibility of state governments is restricted by certain features of specific purpose payment agreements, such as matching and maintenance of effort provisions, which are used by the Commonwealth to leverage its own financial contributions.

Inadequate indexation of specific purpose payment grants can also cause pressure on state budgets, particularly where the injection of Commonwealth specific purpose payment funding generates a rate of growth in demand for services which is more rapid than the rate of growth in Commonwealth funding.

Through fixed-term specific purpose payment agreements, it is also possible for the Commonwealth to seed-fund programs, leaving state governments to meet their financial burden when the original agreements expire. The level of risk in this instance cannot be quantified.

Own-Source Revenue

The amount of revenue received from Territory taxes and royalties is dependent upon the performance of the Territory economy and other external factors. Forecasting such revenue involves judgements and assumptions being made about

the performance of the various economic factors and indicators that impact directly on Territory taxes and royalties, such as growth in wages, employment and prices.

It is difficult to accurately predict revenue collections into the future, particularly for the later years of the forward estimates. The most difficult source of revenue to forecast is conveyance stamp duty, as it is linked to activity in the property market, which can be volatile. It is considered that the unusually high activity in the property market experienced in 2003-04 will not be sustained throughout 2004-05, however, the extent and timing of any drop in activity is difficult to predict and could have a significant impact on conveyance stamp duty collections.

It is estimated that a variation of +/- 1 per cent to the parameters used to forecast Territory taxes and royalties would affect revenue by about \$3 million for 2004-05.

Expenses

The forward estimates for expenses are based on known policy decisions, with adjustments for parameters. The parameters used in the 2004-05 Budget are wages growth of 3 per cent, inflation of 2.1 per cent and a productivity dividend of 2 per cent for 2004-05 and 1 per cent from 2005-06.

The most significant risk to these estimates on the expense side are potential decisions with financial implications, not yet factored into the Budget. Management of budget pressures in health and education, particularly, will continue to be a challenge.

A potential risk in the estimates is the commercial negotiations to be undertaken during 2004-05 in regards to the Darwin City Waterfront redevelopment. All public private partnership negotiations are complex and vary according to the commercial imperatives associated with the project. However, the Territory has expertise in such negotiations and has engaged appropriate expert advisors to mitigate any risk in the negotiations.

The other possible risk is in relation to the Northern Territory Public Sector enterprise bargaining agreement due to be renegotiated later this year. Other agreements to be negotiated in 2004-05 include the police enterprise bargaining agreement and the teachers enterprise bargaining agreement. An increase of 1 per cent equates to around \$10 million in additional expenses.

Contingent Liabilities

Contingent liabilities are costs that the Government is required to meet should a particular event occur. Usually, contingent liabilities consist of guarantees and indemnities, as well as legal and contractual claims and constitute a risk to the Territory's financial position.

Details of estimated amounts at 30 June 2003 of material contingent liabilities resulting from guarantees or indemnities include:

- Amadeus Basin to Darwin Gas Pipeline (\$291 million);
- Pine Creek/McArthur River Electricity Purchase Agreements (\$106 million);
- Alice Springs to Darwin Railway (\$25 million);
- Territory Insurance Office (\$625 million); and
- Public Trustee Common Fund (\$25 million).

For more information on contingent liabilities, refer to Chapter 7 of this Budget Paper.